

Indiana State Teachers' Retirement Fund Request for Information (RFI)

I. Introduction

The Indiana State Teachers' Retirement Fund (hereinafter known as TRF) is searching for investment managers to manage \$70-80 million in a real estate core commingled fund.

II. General Search Process

TRF announces a search for investment management services by advertising in Pensions & Investments and at least one local publication. Callan Associates assists with the search. All managers in Callan's Investment Manager Database, with updated information on the desired investment vehicles, are automatically considered in the search and do not need to provide additional information. If an interested firm is not currently in Callan's database, the firm must complete and return Callan's Investment Manager Questionnaire. All potential investment managers are encouraged to indicate their interest in the search and/or request questionnaires by contacting Sarah Snyder at Callan at snyder@callan.com or 415-274-3009.

Potential managers are evaluated by the staffs of Callan and TRF, based on criteria outlined in Section IV., **Evaluation Criteria**. Semifinalists chosen through this evaluation process and reviewed by Callan's Investment Committee are then sent Requests for Proposal. Finalists chosen after review of the RFP's are visited and interviewed by the staffs of Callan and TRF. TRF staff will make a recommendation for selection to TRF's Board of Trustees. The TRF Board of Trustees makes all final decisions on the selection of qualified investment managers.

III. Manager Search Timeline

The following timeline is expected for the search. It is subject to change at the discretion of the Board of Trustees and/or staff.

<u>Activity</u>	<u>Completion Date</u>
RFI advertised	January 22, 2007
Respondents Indications of Interest due	February 2, 2007
Callan questionnaire submitted if needed	February 26, 2007
Semifinalists sent RFP's	March 27, 2007
Proposal submission date	April 3, 2007
Interviews & due diligence	Week of April 9 th
Managers approved by Board of Trustees	April 24, 2007
Notify selected candidates	April 25, 2007
Document execution	May
Investment vehicles funded	June 1, 2007

IV. Evaluation Criteria

All potential candidates for the real estate core commingled fund search will be evaluated using the following criteria:

A. **Organization**

1. **Type of Firm**-The types of firms that can be considered would include: banks, registered investment advisors and insurance companies.
2. **Real Estate Assets Under Management**-Candidates should have sufficient assets under management to support the professional staff required to successfully acquire, manage, and sell real estate. A minimum of \$1 billion under management is preferred.
3. **Business Focus**-We prefer candidates with an established focus on implementing core real estate investment strategies in a commingled fund format.
4. **Key Personnel**-We prefer candidates that can demonstrate the historical ability to attract and retain senior real estate professionals that are dedicated to the management of core commingled funds.
5. **Property Allocation Policy**-To the extent candidates manage additional portfolios (e.g., client separately managed portfolios and other commingled funds), preference will be given to candidates with clear and fair policies for allocating new investment opportunities among clients and funds.
6. **Research**-We prefer candidates with a culture that is “research oriented” as opposed to “deal” oriented. For example, candidates that do their own “top down” research analysis and that impound their research insights in portfolios to the benefit of clients. We also prefer candidates that use their research as a basis for managing and controlling the various forms of risk inherent in real estate investing.
7. **Asset Management**-Candidates should be able to demonstrate that they actively manage their portfolios and regularly evaluate hold/buy decisions for individual properties. Although it is not required, it is preferred that candidates use (and control) third-party property managers and leasing agents. Candidates should be able to demonstrate that they historically have been able to add value as a result of their asset management efforts.
8. **Reporting**-We prefer candidates who have the resources and commitment to provide timely and accurate quarterly reports, financial

statements, and commingled-fund rates of return. Reports should be compatible with reporting requirements of the Fund's custodian.

B. Investment Management and Investment Vehicle

1. **Vehicle Structure**-The vehicle structure is open-end commingled funds. Preference will be given to vehicle structures where the real estate holdings are not considered plan assets under ERISA.
2. **Vehicle Size**-Eligible commingled funds should have at least \$500 million invested in equity real estate.
3. **Investment Approach**-TRF is seeking a core commingled fund that has broad diversification with respect to property types and geography. The vast majority of fund investments should be in existing, income producing properties that are substantially leased.
4. **Use of Leverage**-Leveraged investments are acceptable as long as total portfolio leverage is less than 40 percent.
5. **Offering Schedule**-Eligible commingled funds should be open for commitments with the ability to accommodate an estimated \$70 to \$80 million investment within a reasonable time frame.
6. **Redemption Policy**-TRF's intent is to invest in real estate for the long term. Nevertheless, we prefer candidates that have a stated policy with respect to handling redemption requests and providing "best effort" measures if redemptions cannot be made as a result of unfavorable or adverse real estate market conditions.
7. **Cash-Flow Distribution Policy**-Preference will be given to commingled funds that distribute net income in the form of a "dividend". TRF wants to have the flexibility to either reinvest the dividend by acquiring additional fund units or use the cash for other purposes.
8. **Appraisal and Audit Policy**-The preferred candidates should be able to provide clear policies for internal and external appraisals and external audits. Such policies should reflect current industry standards.
9. **Investor Rights and Controls**-We will give preference to commingled funds that afford investors certain "rights", such as the ability to remove the investment manager in specific situations.

C. Performance

Strategy Experience-Candidates should be able to demonstrate that they have prior experience in managing “core” real estate portfolios. Candidates should have a five-year history of investing in core portfolios (either in the commingled fund under consideration, other commingled funds, or separately managed portfolios). Consequently, for a candidate with a “new” commingled fund, we may analyze the performance of other portfolios as long as they reflect the same (or substantially similar) “core” strategies proposed for the core commingled fund.

Historical Performance Evaluation-The evaluation will consist of:

- a) Analyzing cumulative 4, 5, and 7 year time periods in relation to the NCREIF Property Index and Callan’s Real Estate Open-End Fund Database.
- b) Analyzing rolling 3 year time periods (quarterly rolls) in relation to the NCREIF Property Index and Callan’s Real Estate Open-End Fund Database.

D. Fees

Fee Rates (as determined by a projected fee analysis) should be competitive and the fee structure should align the manager’s interests with those of investors.

It is TRF’s policy that no member of the Board, employee of the Fund, consultant, or advisor to the Fund shall be contacted by interested firms once Indications of Interest are due or a completed questionnaire is submitted (for those firms not currently in Callan’s database). However, TRF does reserve the right to initiate discussions with firms to make clarifications and resolve minor issues.

The solicitations of Indications of Interest in no way obligates TRF to ultimately hire any investment manager.

Confidential Information

Respondents are advised that materials contained in responses are subject to the Indiana Public Records Act, IC 5-14-3 et seq., and, after the contract award, may be viewed and copied by any member of the public, including news agencies and competitors. Respondents claiming a statutory exception to the Indiana Public Records Act must place all confidential documents (including the requisite number of copies) in a sealed envelope clearly marked “Confidential” and must indicate in the transmittal letter and on the outside of that envelope that confidential materials are included. The Respondent must also specify which statutory exception provision applies. TRF reserves the right to make

final determinations of confidentiality. If TRF does not agree that the information designated is confidential under one of the disclosure exceptions to the Indiana Public Records Act, it may either reject the response or discuss its interpretation of the allowable exceptions with the Respondent. If agreement can be reached, the response will be considered. If agreement cannot be reached, TRF will remove the response from consideration for award and return the response to the Respondent. TRF will not consider information regarding compensation to be confidential information.